

Overview of 2007 Income Tax Law Changes

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IRA Deduction

❑ Modified AGI phase-out range for taxpayers covered by a retirement plan increased to:

- **\$83,000-\$103,000** for married taxpayers filing jointly and qualifying widow(er)s.
- **\$52,000-\$62,000** for single taxpayers and heads of household.

No change for married taxpayers filing separately.

❑ New catch-up contributions of up to \$3,000 allowed to an IRA for certain 401(k) plan participants whose employer filed for bankruptcy.

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Roth IRA Contributions

Inflation adjustments to modified AGI phase-out range for making contributions begin in 2007. Phase-out range increases to:

- ❑ **\$156,000-\$166,000** for married taxpayers filing jointly and qualifying widow(er)s.
- ❑ **\$99,000-\$114,000** for single taxpayers, heads of household, and married taxpayers filing separately who lived apart from their spouse for the entire year.

No change for other married taxpayers filing separately.

Retirement Plans

- ☐ Maximum annual contribution for most participants in 401(k), 403(b), and 457 plans increases to **\$15,500** (**\$10,500** for SIMPLE plans) due to inflation adjustments.
- ☐ The nontaxable part of an eligible rollover distribution (other than from an IRA) may be rolled over to any qualified plan or a section 403(b) annuity contract in a direct trustee-to-trustee transfer.
- ☐ Non-spouse beneficiaries may roll over tax free all or part of a distribution from a qualified plan of a deceased employee to an IRA in a direct trustee-to-trustee transfer.
- ☐ Retired public safety officers can exclude up to \$3,000 in taxable distributions from a qualified governmental plan to pay health or qualified long-term care insurance for the taxpayer, spouse, and dependents.

Health Savings Accounts (HSAs)

- ☐ The maximum HSA deduction is no longer limited to the amount of the annual health plan deductible.
- ☐ A taxpayer who is an eligible individual during the last month of the year is treated as having been eligible for the entire year when figuring the HSA contribution limit.
- ☐ Generally, one rollover in a lifetime can be made to an HSA from a traditional or Roth IRA, up to the HSA contribution limit. The amount rolled over is not included in income and is not deductible.
- ☐ An employer can allow employees to make a one-time rollover to an HSA from a health reimbursement arrangement or a health flexible spending arrangement. The amount rolled over is not included in income, is not taken into account when figuring the HSA contribution limit, and is not deductible.
- ☐ Generally, the additional contributions allowed under the prior three provisions are includable in income and an additional 10% tax applies to the amount includible if an individual does not remain an eligible individual for at least 12 months following (a) the end of the tax year or (b) the rollover month for one-time rollovers.

Whistleblower Expenses

- ☐ You can deduct as an adjustment to income attorney fees and court costs paid in connection with an IRS award received for information provided after December 19, 2006, that substantially contributes to the detection of tax law violations by the IRS.
- ☐ The amount of the deduction cannot exceed the amount of the award includible in gross income.



Charitable Contribution Provisions

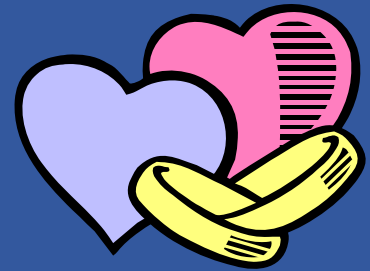
- ❑ Money contributed in tax years beginning after August 17, 2006, must be supported by a dated bank record or receipt.
- ❑ For each qualified conservation contribution made after February 12, 2007, of a restriction regarding the exterior of a building located in a registered historic district and certified by the Secretary of the Interior as being of historic significance to the district, a \$500 filing fee applies if the amount deducted for that contribution exceeds \$10,000.
- ❑ For contributions made after February 13, 2007, no deduction is allowed in most cases for contributions to a donor advised fund if the sponsoring organization is a war veterans' organization, fraternal society, nonprofit cemetery company, or a type III supporting organization not functionally integrated. For other sponsoring organizations, taxpayer must obtain a contemporaneous acknowledgment that the organization has exclusive legal control over the assets contributed.

New Mortgage Insurance Premium Deduction

- ☐ Premiums paid or accrued for qualified mortgage insurance during 2007 in connection with home acquisition debt on a qualified home are deductible as an itemized deduction.
- ☐ The deduction begins to phase out when adjusted gross income exceeds \$100,000 (\$50,000 if married filing separately). No deduction is allowed if AGI exceeds \$109,000 (\$54,500 if married filing separately).
- ☐ Qualified mortgage insurance means mortgage insurance provided by the Veterans Administration, Federal Housing Administration, or Rural Housing Administration, and private mortgage insurance.
- ☐ This provision only applies to mortgage insurance contracts issued during 2007. The premiums must be paid or accrued in 2007 and cannot be allocable to any period after 2007.

Simplified Reporting for Family Businesses

- ☐ For tax years beginning after 2006, a business owned only by a husband and wife can elect not to be treated as a partnership.
- ☐ Both spouses must materially participate in the business under the passive activity rules.
- ☐ The income and deductions are divided between the spouses based on their respective interests in the business.
- ☐ The net income or loss must be taken into account in figuring net earnings from self-employment (even if otherwise exempt).
- ☐ Each spouse must file a separate Schedule C or F for his or her interest in the business.

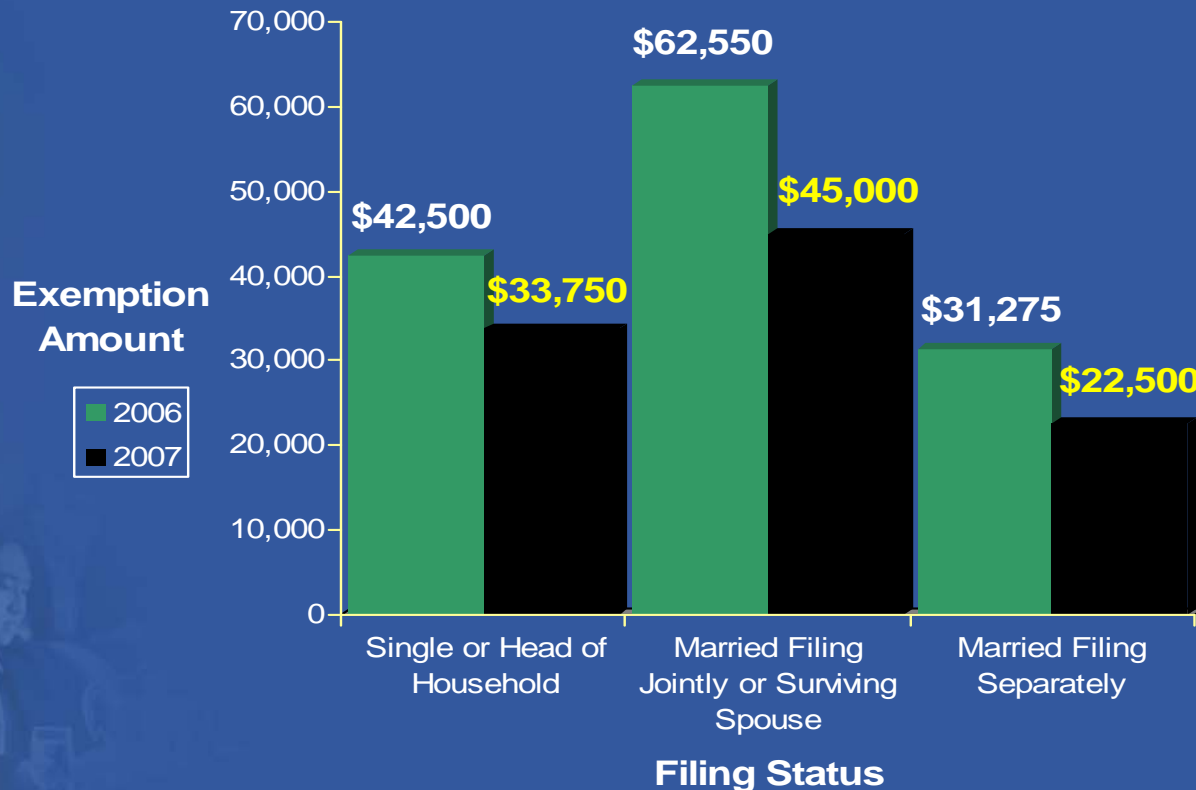


Section 179 Expense Deduction

- ❑ Maximum increases to **\$125,000** (**\$160,000** for enterprise zone and renewal community businesses; **\$225,000** if qualified section 179 Gulf Opportunity Zone property).
- ❑ Phase-out begins when section 179 property exceeds **\$500,000** (**\$1.1 million** if qualified section 179 Gulf Opportunity Zone property).

Decrease in Alternative Minimum Tax Exemption Amount

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Credit for Prior Year Minimum Tax

- ❑ For tax years beginning after 2006, the credit for prior year minimum tax cannot be less than the AMT refundable credit amount. The additional credit allowable under this provision is refundable.
- ❑ The long-term unused minimum tax credit is the minimum tax credit carryforward from the 3rd prior tax year reduced by the minimum tax credits claimed in the 2 tax years following that year.
- ❑ The AMT refundable credit amount is figured as follows.

If the long-term unused minimum tax credit is:	Then the AMT refundable credit is:
Less than \$5,000	The long-term unused minimum tax credit
At least \$5,000, but not more than \$25,000	\$5,000
More than \$25,000	20% of the long-term unused minimum tax credit

- ❑ The credit is reduced by 2% for each \$2,500 (\$1,250 if married filing separately), or fraction thereof, that modified AGI exceeds the start of the AGI phase-out range for personal exemptions.

Foreign Tax Credit Provisions

For tax years beginning after 2006:

❑ The following categories of income have been eliminated and recategorized as passive category income or general category income:

- High withholding tax interest.
- Financial services income.
- Shipping income.
- Dividends from a domestic international sales corporation (DISC) or former DISC.
- Certain distributions from a foreign sales corporation (FSC) or former FSC.

❑ Under IRC § 904(g), a taxpayer who has an overall domestic loss must recharacterize a portion of U.S. source taxable income in later years as foreign source taxable income.



Retirement Savings Contribution Credit

Inflation adjustments to modified AGI phase-out range begin in 2007. Phase-out range increases to:

☐ For married taxpayers filing jointly:

- 50% credit: **Up to \$31,000.**
- 20% credit: **Over \$31,000 and up to \$34,000.**
- 10% credit: **Over \$34,000 and up to \$52,000.**

☐ For heads of household, the above modified AGI dollar amounts are multiplied by **75%.**

☐ For single taxpayers, qualifying widow(er)s, and married taxpayers filing separately, the above AGI dollar amounts are multiplied by **50%.**

Work Opportunity Credit



For employees who begin work after 2006:

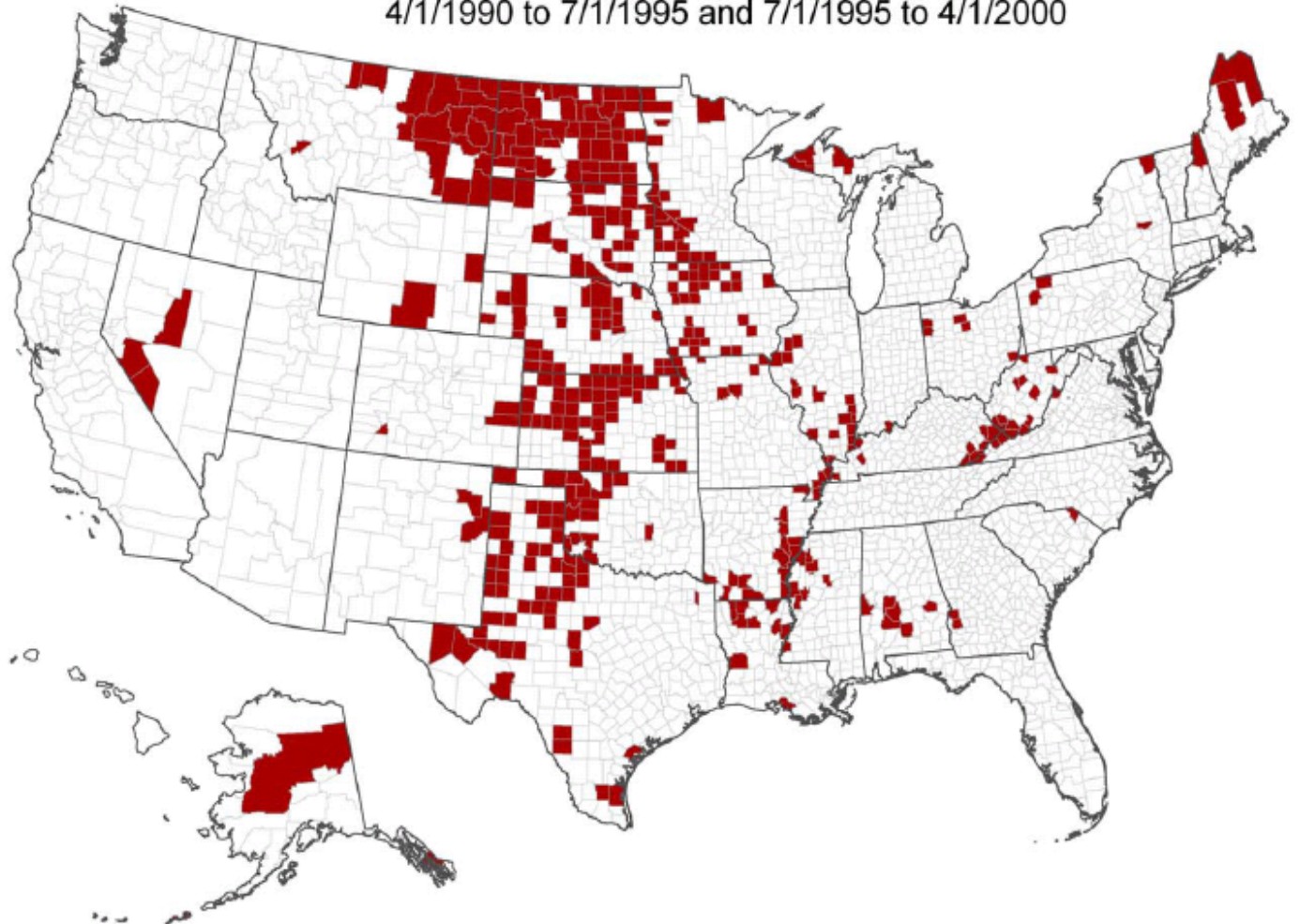
- ☐ The welfare-to-work credit is repealed. Long-term family assistance recipients are now a targeted group for the work opportunity credit.
- ☐ Ex-felons are no longer required to be a member of a low-income family.
- ☐ The age range for food stamp recipients is expanded to individuals who are at least age 18 when hired, but not age 40 or older.
- ☐ Form 8850, Pre-Screening Notice and Certification Request for the Work Opportunity Credit, is due no later than the 28th day after the employee begins work.

Work Opportunity Credit (continued)

- ❑ For tax years beginning after 2006, the credit is allowed against both the regular tax and the AMT.
- ❑ For employees who begin work after May 25, 2007:
 - Qualified veterans expanded to include certain veterans entitled to compensation for a service-connected disability and who were recently discharged, released, or unemployed for a total of 6 months. First-year wages of \$12,000 qualify for the credit for this subgroup only.
 - The age range for designated community residents (formerly high-risk youth) is expanded to individuals who are at least age 18 when hired, but not age 40 or older. Group is expanded to include residents of rural renewal counties shown on the next slide.

Rural Renewal Counties

U.S. counties that were nonmetropolitan in 2003
and that lost population during two time periods:
4/1/1990 to 7/1/1995 and 7/1/1995 to 4/1/2000



Source: Calculated by the Economic Research Service, U.S. Department of Agriculture, using data from the U.S. Census Bureau.

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Credit for FICA Taxes Paid on Certain Employee Tips

☐ For tips received for services after 2006, the amount of tips for any month that are used to figure the credit must be reduced by the amount by which the wages that would have been payable during that month at \$5.15 an hour exceed the wages (excluding tips) paid by the employer during that month.

☐ For tax years beginning after 2006, the credit is allowed against both the regular tax and the AMT.

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Other Tax Provisions

- ❑ For tax years beginning after 2006, the domestic production activities deduction percentage increases to 6%.
- ❑ A taxpayer may elect to treat a musical composition or musical copyright (including accompanying words) as a capital asset if the taxpayer's personal efforts created the property (or the property has a basis determined by reference to the basis in the hands of the taxpayer whose personal efforts created the property).
- ❑ For returns filed after March 15, 2007, the penalty for filing a frivolous tax return is increased to \$5,000. The penalty also applies to other specified frivolous submissions made and issues raised after that date. For more details, see Notice 2007-30, 2007-14 I.R.B. 883.



Expired Provisions

The following tax benefits have expired and will not apply in 2007:

- ☐ Allowance of certain personal tax credits against the AMT
- ☐ Special treatment of qualified hurricane distributions
- ☐ Special treatment of Gulf Opportunity Zone students for the education credits
- ☐ Special Hurricane Katrina exemption amount
- ☐ Increased charitable mileage rate for providing relief related to Hurricane Katrina
- ☐ Income exclusion for discharge of nonbusiness debt due to Hurricane Katrina
- ☐ Special depreciation allowance for NY Liberty Zone property (except real property)
- ☐ Increased depreciation limits for electric passenger automobiles
- ☐ Qualified electric vehicle credit
- ☐ Possessions corporation tax credit



New and Obsolete 2007 Income Tax Forms

New Forms:

- ☐ **Form 8917**, *Tuition and Fees Deduction*
- ☐ **Form 8919**, *Uncollected Social Security and Medicare Tax on Wages*
- ☐ **Form 8925**, *Report of Employer-Owned Life Insurance Contracts*

Obsolete Forms:

- ☐ **Form 1120-A**, *U.S. Corporation Short-Form Income Tax Return*
- ☐ **Form 8913**, *Credit for Federal Telephone Excise Tax*
- ☐ **Form 8914**, *Exemption Amount for Taxpayers Housing Individuals Displaced by Hurricane Katrina*

Pending Legislation

**H.R. 3221 (Division B), *Renewable Energy
and Energy Conservation Tax Act of 2007***

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Additional Resources

☐ **Draft 2007 forms:**

www.irs.gov/taxpros/lists/0,,id=97784,00.html

☐ **Final 2007 forms:**

www.irs.gov/formspubs/lists/0,,id=97817,00.html

☐ **Pub. 553 (Rev. March 2007):**

www.irs.gov/pub/irs-pdf/p553.pdf

☐ **What's Hot In Tax Forms, Publications, and Other Tax Products:**

www.irs.gov/formspubs/article/0,,id=97397,00.html

☐ **Legislation:** thomas.loc.gov

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